



## **CRS Report for Congress**

# **Serbia: Current Issues and U.S. Policy**

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### **Summary**

Serbia faces an important crossroads in its development. It is seeking to integrate into the European Union, but its progress has been hindered by a failure to arrest four remaining indicted war criminals. Serbia has sought closer ties to NATO, but the government is divided on whether to seek eventual NATO membership. The United States and most EU countries are expected to recognize the independence of Serbia's Kosovo province in February 2008. Serbian leaders are likely to strongly reject such an outcome, possibly leading to substantial damage to the country's relations with the United States and other countries recognizing Kosovo. The second session of the 110<sup>th</sup> Congress may consider legislation on Serbia, including conditions on aid to Serbia. This report provides information on Serbia's political and economic situation, its relations with NATO and the European Union, as well as U.S. policy toward Serbia. It will be updated as needed.

### **Background**

In October 2000, a coalition of democratic parties defeated Serbian strongman Slobodan Milosevic in presidential elections, overturning a regime that had plunged the country into bloody conflicts in the region, economic decline, and international isolation in the 1990s. The country's new rulers embarked on a transition toward Western democratic and free market standards, but success has been uneven. Serbia has held largely free and fair elections, according to international observers. A new constitution adopted in 2006 marked an improvement over the earlier, Socialist-era one, but has some shortcomings, especially concerning the independence of the judiciary. Serbian governments have undertaken economic reforms and the country has experienced rapid economic growth in recent years, but living standards remain poor for many. Organized crime and corruption remain very serious problems.

Serbia has set integration in the European Union as its key foreign policy goal, but its progress has been slowed by a failure to arrest remaining key indicted war criminals. Possible clashes with Western countries over the future status of Kosovo, nominally a province of Serbia but with an autonomous government under international oversight,

could have a negative impact on Serbia's EU integration efforts as well as on its ties with NATO. Ethnic Albanians in Kosovo, who form the overwhelming majority in the province, favor independence, which Serbian leaders adamantly oppose.<sup>1</sup> The United States and most EU countries are expected to recognize Kosovo's independence in February 2008.

## Current Political and Economic Situation

**Elections.** On January 21, 2007, Serbia held parliamentary elections, the third since the collapse of the Milosevic regime in 2000. The ultranationalist Serbian Radical Party, which has been hostile to U.S. and EU policy goals in the region, received 81 seats in the 250-seat parliament. The pro-Western Democratic Party (DS) of President Boris Tadic won 64 seats. A coalition of Democratic Party of Serbia (DSS), a nationalist party which favors European integration, and a smaller party won 47 seats. The pro-free market, pro-Western G17 Plus party won 19 seats. The Socialist Party of Serbia, once headed by Milosevic, won 16 seats. A new pro-Western grouping, led by the Liberal Democratic Party, won 15 seats. The eight remaining seats went to parties representing Hungarian, Muslim, ethnic Albanian, and Roma minorities.<sup>2</sup> The parties in the new parliament engaged in protracted talks on forming a coalition government. On May 15, 2007, just minutes before a deadline that would have triggered new elections, the Serbian parliament approved a new government headed by DSS leader Vojislav Kostunica. A majority of the ministries in the government went to the Democratic Party, while others went to the DSS and G17.

Serbia held presidential elections on January 20, 2008. Incumbent Boris Tadic of the DS faced Tomislav Nikolic from the Radicals, as well as several candidates from smaller parties. Nikolic won 39.99% of the vote. Tadic came in second with 35.39%. The other candidates trailed far behind. As no candidate received a majority, a runoff election was held between Tadic and Nikolic on February 3. Tadic won re-election by a narrow majority of 50.6% to 47.7%. Analysts say Tadic was helped by a heavy turnout among pro-Western voters who feared that a Nikolic victory could lead to international isolation for Serbia.

Tadic won despite the fact that a Kostunica ally ran against him in the first round of the vote, and that Kostunica refused to endorse Tadic in the runoff. Kostunica charged that Tadic was insufficiently supportive of his efforts to combat impending international recognition of Kosovo's independence. The government could collapse over the Kosovo issue, either before or after international recognition. The Radicals would be expected to do very well in a new parliamentary election. They could lead a new government, particularly if they had the support of Kostunica and the DSS.

**Serbia's Economy.** Since 2001, Serbian governments have embarked on comprehensive economic reforms. The government ran a consolidated budget surplus

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<sup>1</sup> Serbia was linked with Montenegro in a common state until Montenegro gained its independence in June 2006. For more on Serbia's development from the fall of Milosevic until Montenegro's independence, see CRS Report RL30371, *Serbia and Montenegro: Background and U.S. Policy*, by Steven Woehrel.

<sup>2</sup> Republic of Serbia Electoral Commission website, [<http://www.rik.parlament.sr.gov.yu/>].

estimated at 0.5% of GDP in 2006 and expects to run a slight surplus in 2007 as well. The IMF has called on Serbia to restrain public sector spending. Serbia's finance minister has vowed to slash government spending in the 2008 budget. This may be especially important as Serbia's privatization effort is nearing its final stages, and a key source of revenue will dry up. Over 2,000 state-owned firms have been sold off since 2001, with about 1,000 left to go. Several key ones still need to be sold off, especially the national oil company NIS. In January 2008, the Russian oil monopoly Gazprom reached an agreement with Serbia to buy NIS. Gazprom's effort may have been helped by Moscow's opposition to Kosovo's independence. The deal includes a plan to route a branch of Gazprom's proposed South Stream natural gas pipeline through Serbia. The government hopes to finish Serbia's privatization process by 2010. Foreign direct investment (FDI) has been substantial. Serbia took in \$4.4 billion in net FDI in 2006, in large part due to the proceeds from privatizations. Net FDI for January-October 2007 was \$1.3 billion.

Serbia has experienced rapid economic growth in recent years. Gross Domestic Product rose by 8% in the first half of 2007, on a year-on-year basis. Real wages are rising rapidly, 22.1% from January-October 2007, on a year-on-year basis. The increase has been in part due to raises given to government workers and those working in state-owned companies. Consumer price inflation has been increasing, reaching 8.8% in September 2007, on a year-on-year basis. Unemployment is dropping, but remains very high, at over 20% of the workforce. Poverty also remains a problem. The World Bank has estimated that over 10% of the population of Serbia is impoverished, and another third is close to poverty.<sup>3</sup>

## **Relations with the European Union and NATO**

Since the defeat of the Milosevic regime in 2000, Serbia's main foreign policy goal has been integration into Euro-Atlantic institutions. Serbia is particularly interested in joining the European Union. As a first step, the European Union has offered Serbia a Stabilization and Association Agreement (SAA). The agreement would provide a framework for enhanced cooperation between the EU and Serbia in a variety of fields, including help in harmonizing local laws with EU standards, with the perspective of EU membership. However, EU officials made clear to Serbian leaders that a closer relationship with the EU, including an SAA, requires Serbian cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY).<sup>4</sup> The political situation in Serbia may continue to stymie cooperation with the ICTY. The Radicals and the Socialists are opposed to any cooperation with the Tribunal, and, while nominally supportive, the enthusiasm of Kostunica and the DSS is open to doubt. The DSS controls the Interior Ministry in the Serbian government, giving it a key role in ICTY cooperation.

However, the Kosovo issue is proving to be an even greater impediment to closer Serbian relations with the EU. Many EU countries have been eager to sign an SAA with Serbia as soon as possible, in order to avoid isolating Belgrade as the Kosovo status process reaches its final stages. On November 7, 2007, the EU Commission initialed an

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<sup>3</sup> Economist Intelligence Unit Country Report: Serbia, January 2008.

<sup>4</sup> For more information, see CRS Report RS22097, *Balkan Cooperation on War Crimes Issues*, by Julie Kim.

SAA with Serbia. The majority of EU countries wanted to sign the SAA with Serbia before the second round of Serbia's presidential election on February 3, 2008, in hopes of helping Tadic win reelection. However, the Dutch government blocked the move, insisting that Mladic must be delivered to the ICTY first. As a compromise, on January 28, the EU instead offered Serbia a special agreement that would deal with such issues as political dialogue, visa liberalization, free trade, and education cooperation. The accord was intended to be signed on February 7, but Prime Minister Kostunica rejected the agreement, saying that it was a "deception" aimed at getting Serbia to tacitly accept Kosovo's independence. Kostunica's action has increased tensions within the governing coalition, as the DS is strongly in favor of the accord. Analysts believe the government could collapse over the issue, triggering new parliamentary elections.

Relations between Serbia and the EU could worsen further in the next few weeks, if, as expected, Kosovo declares independence and receives diplomatic recognition by the overwhelming majority of EU states. The Serbian government is considering disrupting communications and transportation links between Serbia and Kosovo, if Kosovo declares independence. Prime Minister Kostunica has threatened that Serbia would break diplomatic ties with countries recognizing Kosovo's independence. The DS opposes such a move.

**NATO.** The Serbian government has favored closer ties with NATO. In December 2006, Serbia joined NATO's Partnership for Peace (PFP) program. PFP is aimed at helping countries come closer to NATO standards and at promoting their cooperation with NATO. PFP membership is a prerequisite if a country wishes to join NATO in the future. Serbia's participation in the program had been delayed by the country's failure to deliver Ratko Mladic to the Tribunal, but NATO members decided to invite Serbia anyway at the November 2006 NATO summit.

Parties in the government have differing views on whether Serbia should seek NATO membership. President Boris Tadic and his Democratic Party and are in favor of joining NATO. The Democratic Party controls the foreign and defense ministries in the Serbian government, and supports defense reforms. However, Serbia still must make further progress in reforming its military, as well as its intelligence and security agencies, to be a viable candidate for future NATO membership. On the other hand, rising tensions over Kosovo have led DSS leaders to sharply criticize NATO in recent months, perhaps in part in hopes of currying favor with Moscow, its main ally on the issue. The DSS favors participation in PFP, but not NATO membership for Serbia.

Due in part to memories of NATO's 1999 bombing of Serbia, public opinion polls have shown that less than one-third of the Serbian public favor NATO membership. If Kosovo's independence is recognized by the United States and other leading NATO countries, an even greater number of Serbs may turn against NATO membership and close NATO ties for their country, particularly if there is confrontation and conflict between NATO-led peacekeepers and Serbs in Kosovo in the wake of a Kosovo settlement.

## **U.S. Policy**

Serbia has played a key role in U.S. policy toward the Balkans since the collapse of the former Yugoslavia in 1991. U.S. officials came to see the Milosevic regime as a key factor behind the wars in the region in the 1990s, and pushed successfully for U.N.

economic sanctions against Serbia. On the other hand, the United States drew Milosevic into the negotiations that ended the war in Bosnia in 1995. The United States bombed Serbia in 1999 to force Belgrade to relinquish control of Kosovo, where Serbian forces had committed atrocities while attempting to suppress a revolt by ethnic Albanian guerrillas. U.S. officials hailed the success of Serbian democrats in defeating the Milosevic regime in elections in 2000 and early 2001. The United States has seen a democratic and prosperous Serbia, at peace with its neighbors and integrated into Euro-Atlantic institutions, as an important part of its key policy goal of a Europe “whole, free and at peace.”

The United States provides significant aid to Serbia. Serbia received \$61.3 million in U.S. aid in FY2007. Of this total, \$60 million was SEED funding for political and economic reforms, \$1.26 million was NADR non-proliferation, antiterrorism, and demining funds, and \$43,000 was IMET military training funds. For FY2008, the Administration requested \$51.3 million in aid in the SEED account, \$1.65 million in NADR funds, and \$0.3 million in IMET assistance. For FY2009, the Administration is requesting \$46.27 million in SEED funding, \$1.5 million in FMF military assistance funds, and \$1 million in IMET aid.

U.S. SEED aid is aimed at strengthening democratic institutions and civil society, including by supporting the development of effective local governments. It also is being used to help Serbia strengthen its free market economy by providing advice on fiscal reform, fighting financial crime, and promoting a better investment climate. Other U.S. aid is targeted at strengthening Serbia’s export and border controls, including against the spread of weapons of mass destruction. The signing of a Status of Forces Agreement with Serbia in September 2006 has permitted greater bilateral military cooperation between the two countries, including increased U.S. security assistance for Serbia as well as joint military exercises and other military-to-military contacts.

In 2003, the Administration certified that Serbia and Montenegro was eligible for Normal Trade Relations (NTR) with the United States. The country’s NTR status had been suspended in 1992, in response to its role in the war in Bosnia, according to the terms of P.L. 102-420 (106 Stat. 2149). Administration officials said the move was made in response to the improved situation in Serbia, especially in defense reform and cutting links between the Serbian and Bosnian Serb armed forces. In June 2005, the Administration announced that it had granted duty-free treatment to some products from Serbia and Montenegro under the Generalized System of Preferences (GSP).

However, there remain difficult issues in U.S.-Serbian relations. One is Serbia’s failure to fully cooperate with the ICTY. Since FY2001, Congress has conditioned part of U.S. aid to Serbia after a certain date of the year on a presidential certification that Serbia has met several conditions, the most important being that it is cooperating with the ICTY. Serbia’s cooperation with the Tribunal has moved in fits and starts, as, correspondingly, has U.S. aid to Serbia. The certification process typically affects only a modest portion of the amount allocated for any given year, due to the fact that the deadline for compliance is set for a date in the spring of the fiscal year, and that humanitarian and democratization aid are exempted. Four ICTY indictees, all of them

Serbs, remain at large, the most important of whom are Mladic and former Bosnian Serb leader Radovan Karadzic.<sup>5</sup>

For many years, the United States also conditioned its support for Serbia's membership in NATO's Partnership for Peace program on Mladic's transfer to the Tribunal. In a move that surprised many observers, in November 2006 the Administration reversed this policy and offered support for Serbia's unconditional membership in PFP. The move was taken in response to a letter by President Tadic to NATO leaders promising to improve Serbia's cooperation with the ICTY. The move may have been intended to boost pro-Western parties in the January 2007 Serbian parliamentary elections.

Perhaps the most serious cloud over U.S.-Serbian relations is the problem of Kosovo's status. The United States has strongly backed the proposal of U.N. envoy Martti Ahtisaari to resolve the status issue. Almost all Serbian leaders have rejected the plan, which endorses internationally supervised independence for Kosovo. An overwhelming majority in the Serbian parliament views Kosovo as an inalienable part of Serbia, rejects independence for Kosovo, and has called for a downgrading of relations with any country recognizing Kosovo's independence. Therefore, a move by the United States to recognize Kosovo's independence, which is likely to occur in the next few weeks, would likely provoke a sharp deterioration of U.S.-Serbian relations, at least for a time.<sup>6</sup>

## Congressional Role

The 110<sup>th</sup> Congress has considered legislation on Serbia. On January 17, 2007, the Senate passed S.Res. 31 by unanimous consent. It expressed support for democratic forces in Serbia and strong U.S.-Serbian relations. It called on the United States to assist Serbian efforts to join the EU and NATO. Division J of the Consolidated Appropriations Act of 2008 (P.L. 110-161) includes FY2008 foreign aid appropriations. Section 699D permits U.S. aid to Serbia after May 31, 2008 if Serbia meets certain conditions, most importantly, cooperation with the ICTY. In the first session of the 110<sup>th</sup> Congress, Representative Tom Lantos introduced H.Res. 36 on January 5, 2007, which calls on the United States to express its support for Kosovo's independence. On March 29, 2007, Senator Lieberman introduced S.Res. 135, which calls for U.S. recognition of Kosovo's independence, with or without a U.N. Security Council resolution. An identical House resolution, H.Res. 309, was introduced on April 17. On May 24, 2007, Representative Bean introduced H.Res. 445, which expresses the sense of the House that the United States should reject an imposed solution on Kosovo's status and not take any unilateral steps to recognize Kosovo's independence. The second session of the 110<sup>th</sup> Congress may also consider legislation on Kosovo, as well as on conditions on aid to Serbia.

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<sup>5</sup> For more information see CRS Report RS21686, *Conditions on U.S. Aid to Serbia*, by Steven Woehrel.

<sup>6</sup> For more on Kosovo, see CRS Report RL31053, *Kosovo and U.S. Policy*, by Julie Kim and Steven Woehrel, and CRS Report RS21721, *Kosovo's Future Status and U.S. Policy*, by Steven Woehrel.